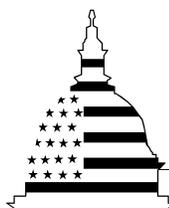


May 2006

FINANCIAL AUDIT

Congressional Award  
Foundation's Fiscal  
Years 2005 and 2004  
Financial Statements



G A O

Accountability \* Integrity \* Reliability

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United States Government Accountability Office  
Washington, D.C. 20548

May 15, 2006

The President of the Senate  
The Speaker of the House of Representatives

This report presents our opinion on the financial statements of the Congressional Award Foundation for the fiscal years ended September 30, 2005, and 2004. These financial statements are the responsibility of the Congressional Award Foundation. This report also presents (1) our opinion on the effectiveness of the Foundation's related internal control as of September 30, 2005, and (2) our conclusion on the Foundation's compliance in fiscal year 2005 with selected provisions of laws and regulations we tested. We conducted our audit pursuant to section 107 of the Congressional Award Act, as amended (2 U.S.C. § 807), and in accordance with U.S. generally accepted government auditing standards. This report also includes our determination required under section 104(c)(2)(A) of the Act (2 U.S.C. § 804(c)(2)(A)) relating to the Foundation's financial operations.

If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or by e-mail at [sebastians@gao.gov](mailto:sebastians@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. Key contributors to this report were Amy Bowser, Ryan Geach, Julie Phillips, Zakia Simpson, and Patricia Summers.

Steven J. Sebastian  
Director  
Financial Management and Assurance



United States Government Accountability Office  
Washington, D.C. 20548

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May 15, 2006

The President of the Senate  
The Speaker of the House of Representatives

We have audited the statements of financial position of the Congressional Award Foundation (the Foundation) as of September 30, 2005, and 2004, and the related statements of activities and statements of cash flows for the fiscal years then ended. We found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, although substantial doubt exists about the Foundation's ability to continue as a going concern;
- the Foundation did not have effective internal control over financial reporting (including safeguarding assets) but did have effective control over compliance with laws and regulations; and
- no reportable noncompliance with the provisions of laws and regulations we tested during fiscal year 2005.

The following sections provide additional detail about our conclusions and the scope of our audit.

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## Opinion on Financial Statements

The financial statements and accompanying notes present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the Foundation's financial position as of September 30, 2005, and 2004, and the results of its activities and its cash flows for the fiscal years then ended. However, material misstatements may nevertheless occur in other information reported by the Foundation on its financial status to its Board of Directors and others as a result of the material

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weakness<sup>1</sup> in internal control over financial reporting described in this report.

As discussed in a later section of this report and in Note 12 to the financial statements, the Foundation continues to experience difficulties in meeting its financial obligations. The Foundation's continuing financial difficulties raise substantial doubt, for the fourth consecutive year, about its ability to continue as a going concern.<sup>2</sup> The financial statements have been prepared under the assumption that the Foundation would continue as a going concern, and do not include any adjustments that would need to be made if the Foundation were to cease operations.

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## Opinion on Internal Control

Because of the material weakness in internal control discussed below, the Foundation did not maintain effective internal control over financial reporting (including safeguarding assets) but did have effective control over compliance with laws and regulations. The Foundation's controls did not provide reasonable assurance that losses and misstatements material in relation to the financial statements would be prevented or detected on a timely basis. Our opinion is based on criteria established in our *Standards for Internal Control in the Federal Government*.<sup>3</sup>

In our report on the results of our audit of the Foundation's fiscal year 2004 financial statements, we reported that the deteriorating financial condition of the Foundation led to further deterioration in controls over the financial reporting process, impeding its ability to prepare timely and accurate

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<sup>1</sup> A material weakness is a reportable condition that precludes the entity's internal control from providing reasonable assurance that material misstatements in the financial statements would be prevented or detected on a timely basis. Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the Foundation's ability to meet the objectives described in this report.

<sup>2</sup> GAO, *Financial Audit: Congressional Award Foundation's Fiscal Years 2002 and 2001 Financial Statements*, GAO-03-737 (Washington, D.C.: May 15, 2003), *Financial Audit: Congressional Award Foundation's Fiscal Years 2003 and 2002 Financial Statements*, GAO-05-132 (Washington, D.C.: Nov. 15, 2004), and *Financial Audit: Congressional Award Foundation's Fiscal Years 2004 and 2003 Financial Statements*, GAO-06-168 (Washington, D.C.: Nov. 4, 2005).

<sup>3</sup> GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

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financial statements. At the conclusion of our audit of the Foundation's fiscal year 2004 financial statements, we stressed to the Foundation's management the importance of documenting the Foundation's financial reporting policies and procedures, and further stressed that the policies and procedures should detail such functions as the monthly closing process, preparation of the financial statements, and review of financial data by management.

During fiscal year 2005, the Foundation hired an accountant<sup>4</sup> to help ensure that accurate and timely accounting and reporting of financial information occurred. This enabled the Foundation to provide us with a draft of the financial statements within 5 months after the fiscal year-end, something the Foundation had been unable to do in each of the preceding two financial statement audits. However, the Foundation continued to lack appropriate written procedures during fiscal year 2005 for making closing entries in its financial records and for preparing complete and accurate financial statements. The continued lack of written policies and procedures during fiscal year 2005 contributed to errors we identified during our audit of the Foundation's fiscal year 2005 financial statements. For example, the Foundation did not adequately perform its year-end bank reconciliation and misclassified the forgiveness by vendors of some of its outstanding debt. Both of these issues resulted in audit adjustments to the financial statements. In addition, numerous errors in the financial statements were not detected by management's review. This resulted in the need for management to make material adjustments to correct errors we identified during our audit. The Foundation was ultimately able to produce financial statements that were fairly stated in all material respects for fiscal years 2005 and 2004, but not without substantial adjustments identified during our audit.

Subsequent to fiscal year 2005, the Foundation's Board of Directors' newly elected Treasurer worked with the National Office staff to improve internal control over financial reporting and develop written fiscal policies and procedures for financial operations and reporting. Since these procedures were not drafted until after fiscal year 2005, and the procedures related to financial reporting were not implemented in fiscal year 2005, they had no effect on the fiscal year 2005 financial statements. However, if properly implemented, they should lead to improvements in financial management going forward. We will evaluate the effectiveness of these new policies and

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<sup>4</sup>The accountant was given the title Controller during fiscal year 2006.

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procedures during our audit of the Foundation's fiscal year 2006 financial statements.

Foundation management asserted that, with the exception of the material weakness in financial reporting, its internal control during the period was effective based on criteria established under GAO's *Standards for Internal Control in the Federal Government*. In making its assertion, Foundation management stated the need to improve control over financial reporting. Although the weakness did not materially affect the final fiscal year 2005 financial statements as adjusted for errors identified by the audit process, deficiencies in internal control may adversely affect any decision by management that is based, in whole or in part, on other information that is inaccurate because of the deficiencies. Unaudited financial information reported by the Foundation may also contain misstatements resulting from these deficiencies.

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## Compliance With Laws and Regulations

Our tests for compliance with relevant provisions of laws and regulations for fiscal year 2005 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

For the fiscal year 2004 audit, our tests for compliance with relevant provisions of laws and regulations disclosed one area of material noncompliance that was reportable under U.S. generally accepted government auditing standards. This concerned the Foundation's ability to ensure that it had appropriate procedures for fiscal control and fund accounting and that its financial operations were administered by personnel with expertise in accounting and financial management.

Specifically, section 104(c)(1) of the Congressional Award Act, as amended (2 U.S.C. § 804(c)(1)), requires the Director, in consultation with the Congressional Award Board, to "ensure that appropriate procedures for fiscal control and fund accounting are established for the financial operations of the Congressional Award Program, and that such operations are administered by personnel with expertise in accounting and financial management." The Comptroller General is required by section 104(c)(2)(A) of the Congressional Award Act, as amended (2 U.S.C. § 804(c)(2)(A)), to (1) annually determine whether the Director has substantially complied with the requirement to have appropriate

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procedures for fiscal control and fund accounting for the financial operations of the Congressional Award Program and to have personnel with expertise in accounting and financial management to administer the financial operations, and (2) report the findings in the annual audit report.

For 2004, because the Foundation did not have appropriate fiscal procedures and did not have an individual with expertise in accounting and financial management to routinely administer the procedures and account for the financial operations of the Foundation, we determined that the Director did not substantially comply with the requirements in section 104(c)(1) of the Congressional Award Act, as amended (2 U.S.C. § 804(c)(1)).

As discussed earlier, during fiscal year 2005, the Foundation hired an accountant to focus on improving financial management. Subsequent to fiscal year 2005, the newly elected Treasurer and Audit Committee Chair worked with the National Office staff to improve internal control over financial reporting and develop written fiscal policies and procedures for financial operations and reporting. Due to these actions, we were able to conclude that for the year under audit, the Foundation was in compliance with the provisions of the Act.

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## The Foundation's Ability to Continue as a Going Concern

The Foundation incurred a gain (increase in net assets) of about \$10,000 in fiscal year 2005 as compared to a loss (decrease in net assets) of almost \$168,000 in fiscal year 2004. This difference of approximately \$178,000 was due primarily to a reduction in salary expenses in fiscal year 2005. Salary expenses were less in fiscal year 2005 because the National Director, who retired at the end of fiscal year 2004, was not replaced during fiscal year 2005. The Program Director functioned in two positions, serving as the Acting National Director as well as the Program Director. As a result, the Foundation's salary costs were reduced by over \$172,000 between fiscal years 2004 and 2005.

Although the Foundation's overall expenses decreased by over \$130,000 between fiscal years 2004 and 2005, operating revenues and other support decreased by over \$134,000, attributable in part to a nearly \$64,000 decline in contributions. The Foundation attributed this decline in contributions to the fact that the Foundation was not reauthorized by the Congress for fiscal year 2005 which, it believes, discouraged some donors from contributing to the Foundation. The Foundation's previous authorization expired on October 1, 2004. On December 22, 2005, the President signed Public Law

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109-143, which reauthorized the Congressional Award Foundation through September 30, 2009.

During fiscal year 2002, the Foundation borrowed \$100,000, the maximum amount allowable against its revolving line of credit, due to ongoing cash flow problems associated with its daily operations. This debt, partially secured by a \$50,000 certificate of deposit, remained outstanding at September 30, 2005.

Note 12 to the financial statements acknowledges the Foundation's difficulties in meeting its financial obligations. The Foundation has taken steps to decrease its expenditures and liabilities. For example, accounts payable at September 30, 2005, were approximately \$16,000, down from \$135,500 in fiscal year 2004. This decrease in accounts payable was due to the Foundation using funds from the Congressional Award Fellowship Trust to pay off a substantial portion of its liabilities, and its ability to negotiate with certain of its vendors to cancel about \$63,000 in liabilities to these vendors during fiscal year 2005. In addition, the Foundation showed considerable cost reductions as evidenced by the decrease in operating expenses (primarily salaries) from over \$594,000 in fiscal year 2004 to about \$464,000 in fiscal year 2005. However, these steps may not be sufficient to allow it to continue operations.

Unaudited financial data compiled by the Foundation as of March 31, 2006, showed that its financial condition has not improved through the first half of fiscal year 2006. While the Foundation has \$112,000 in contributions receivable as of March 31, 2006, \$52,000 of this contribution is to be used to cover costs associated with its planned Congressional Award Golf Classic fundraising event in May, and \$30,000 is to be used to cover costs associated with the annual Gold Award ceremony in June. The golf fundraising event resulted in net revenues for the first time in fiscal year 2004, so its ability to raise funds annually cannot be assured, and the Gold Award ceremony is not a fundraising event. There are also indications that the Foundation is continuing to have difficulty meeting its obligations; according to the minutes of the January 31, 2006, Board of Directors' meeting, the Acting National Director and the Controller delayed cashing their pay checks for two pay periods in January 2006 due to cash flow problems at the Foundation.

In addition, the Foundation has a \$100,000 line of credit that is payable upon demand. If this liability needed to be paid immediately, the Foundation would have to liquidate its \$55,000 certificate of deposit, equity

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securities of about \$36,000 (reported as outstanding at March 31, 2006), and its remaining cash balance of about \$6,700.

In its plan to deal with its financial difficulties and increase its revenues, the Foundation modified its approach to fundraising during the past 2 years by holding more frequent but smaller and less expensive fundraising events than in the past. However, these smaller fundraisers did not increase contributions, which decreased by over \$64,000, or 23 percent, from fiscal years 2004 to 2005.

In an effort to further improve fundraising efforts, the Foundation stated that its Board created a Congressional Liaison Committee, Development Committee, and Program Committee during fiscal year 2005. The Foundation reported that these committees have raised the visibility of the Foundation. In addition, the Development Committee has increased the number of fundraisers from one in the first half of fiscal year 2005 to three in the first half of fiscal year 2006. The newly elected Development Chairperson is leading fundraising initiatives in the corporate community, including pursuing grant opportunities, and the Foundation continues to work with professional fundraisers to more actively involve congressional members. The Foundation is currently prohibited from receiving federal funds, but is permitted to receive certain in-kind and indirect resources, as explained in Note 5 to the financial statements.

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## Objectives, Scope, and Methodology

The Foundation's management is responsible for

- preparing the annual financial statements in conformity with U.S. generally accepted accounting principles;
- establishing, maintaining, and assessing the Foundation's internal control to provide reasonable assurance that the Foundation's control objectives are met; and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) management maintained effective internal control, the objectives of which are the following.

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- Financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements, in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
  - Compliance with laws and regulations—transactions are executed in accordance with laws and regulations that could have a direct and material effect on the financial statements.

We are also responsible for testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by Foundation management;
- evaluated the overall presentation of the financial statements and notes;
- read unaudited financial information for the Foundation for the first 6 months of fiscal year 2006;
- obtained an understanding of the internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations;
- tested relevant internal control over financial reporting and compliance and evaluated the design and operating effectiveness of internal control; and
- tested compliance with selected provisions of the Congressional Award Act, as amended.

We did not evaluate internal control relevant to operating objectives, such as controls relevant to ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance.

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We did not test compliance with all laws and regulations applicable to the Foundation. We limited our tests of compliance to those provisions of laws and regulations that we deemed to have a direct and material effect on the financial statements for the fiscal year ended September 30, 2005. We caution that noncompliance may occur and not be detected by our tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards.

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## Foundation's Comments and Our Evaluation

In commenting on a draft of this report, the Foundation stressed its efforts to secure funds to adequately support the program. The Foundation noted that contributions and pledges received through April 2006 showed significant increases over funding received in fiscal year 2005. The Foundation attributed this to both the recent reauthorization of the program in December 2005, and the Congress reaffirming its commitment to the Foundation, resulting in donors being more willing to contribute financially. The Foundation also discussed its plans to hold more fundraising events with Members of Congress. Additionally, the Foundation noted its efforts to reduce its operating expenses in order to meet its financial obligations. The Foundation also discussed efforts it has made to improve its internal controls over accounting and financial reporting through its development of written policies and procedures for financial operations and reporting.

As we discuss in our report, these written policies and procedures were not drafted until after the period covered by our fiscal year 2005 financial audit. Consequently, they had no impact on the preparation of the Foundation's fiscal year 2005 financial statements. If properly implemented, however, they should lead to improvements in the Foundation's financial management. We will evaluate the effectiveness of these new policies and procedures during our audit of the Foundation's fiscal year 2006 financial statements.

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The complete text of the Foundation's comments is reprinted in appendix I.

A handwritten signature in black ink, reading "Steven J. Sebastian". The signature is written in a cursive style with a large, stylized initial "S".

Steven J. Sebastian  
Director  
Financial Management and Assurance

May 3, 2006

# Financial Statements

## Statements of Financial Position

**The Congressional Award Foundation  
Statements of Financial Position  
As of September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash and cash equivalents	\$6,743	\$6,616
Certificate of deposit	55,013	53,611
Contributions receivable (note 3)	45,000	60,573
Prepaid expense	2,880	3,545
Congressional Award Fellowship Trust (note 4)	58,531	195,551
Equipment, furniture, and fixtures, net	<u>9,804</u>	<u>15,848</u>
<b>Total assets</b>	<b><u>\$177,971</u></b>	<b><u>\$335,744</u></b>
<b>Liabilities and net assets</b>		
Accounts payable (note 9)	\$15,817	\$135,503
Line of credit (note 8)	100,000	100,000
Accrued payroll, related taxes, and leave	9,972	57,613
Obligation under capital lease	<u>0</u>	<u>462</u>
<b>Total liabilities</b>	<b><u>125,789</u></b>	<b><u>293,578</u></b>
<b>Net assets</b>		
Unrestricted	23,614	10,540
Temporarily restricted (note 6)	<u>28,568</u>	<u>31,626</u>
<b>Total net assets</b>	<b><u>52,182</u></b>	<b><u>42,166</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$177,971</u></b>	<b><u>\$335,744</u></b>

The accompanying notes are an integral part of these financial statements.

## Statements of Activities

**The Congressional Award Foundation**  
**Statements of Activities**  
**For the Fiscal Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Changes in unrestricted net assets:</b>		
<b>Operating revenue and other support</b>		
Contributions	\$217,353	\$281,528
Contributions - In-kind (note 5)	131,114	94,596
Program and other revenues	87,305	31,870
Interest and dividends applied to current operations	2,736	3,745
Net assets released from restrictions (note 6)	<u>3,060</u>	<u>164,171</u>
<b>Total operating revenue and other support</b>	<b><u>441,568</u></b>	<b><u>575,910</u></b>
<b>Operating expenses (note 11)</b>		
Salaries, benefits, and payroll taxes	203,896	375,931
Program, promotion, and travel	24,028	10,659
Fund-raising expense	42,820	26,127
Gold Award ceremony	51,522	16,478
Professional fees	71,234	101,300
Depreciation	6,044	13,077
Board of Directors expense	4,355	6,879
Administrative and other expense	<u>60,121</u>	<u>44,007</u>
<b>Total operating expenses</b>	<b><u>464,020</u></b>	<b><u>594,458</u></b>
<b>Subtotal</b>	<b>(22,452)</b>	<b>(18,548)</b>
<b>Other changes</b>		
Unrealized investment gains not applied to current operations	38,807	16,432
Realized investment (losses) applied to current operations	<u>(3,279)</u>	<u>(1,669)</u>
<b>Increase (decrease) in unrestricted net assets</b>	<b>13,076</b>	<b>(3,785)</b>
<b>Changes in temporarily restricted net assets:</b>		
Net assets released from restrictions (note 6)	<u>(3,060)</u>	<u>(164,171)</u>
<b>(Decrease) in temporarily restricted net assets</b>	<b>(3,060)</b>	<b>(164,171)</b>
<b>Increase (decrease) in net assets</b>	<b>10,016</b>	<b>(167,956)</b>
Net assets at beginning of year	<u>42,166</u>	<u>210,122</u>
<b>Net assets at end of year</b>	<b><u>\$52,182</u></b>	<b><u>\$42,166</u></b>

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

The Congressional Award Foundation  
 Statements of Cash Flows  
 For the Fiscal Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$10,016	(\$167,956)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	6,044	13,077
Net unrealized gain	(38,807)	(16,432)
Realized loss on sale of investments	3,279	1,669
Certificate of deposit interest not applied to current operations	(1,401)	(1,572)
Change in operating assets:		
Contributions receivable	15,573	99,448
Prepaid expenses	665	(1,068)
Change in operating liabilities:		
Accounts payable	(119,686)	(14,840)
Accrued payroll, related taxes and leave	(47,641)	35,404
Obligation under capital lease	<u>(462)</u>	<u>2</u>
<b>Net Cash (Used) in Operating Activities</b>	<b>(172,420)</b>	<b>(52,268)</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of investments	<u>172,547</u>	<u>49,678</u>
<b>Net Cash Provided by Investing Activities</b>	<b><u>172,547</u></b>	<b><u>49,678</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>127</b>	<b>(2,590)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b><u>6,616</u></b>	<b><u>9,206</u></b>
Cash and Cash Equivalents, end of year	<u>\$6,743</u>	<u>\$6,616</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

THE CONGRESSIONAL AWARD FOUNDATION

Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2005 and 2004

**Note 1. Organization**

The Congressional Award Foundation (the Foundation) was formed in 1979 under Public Law 96-114 and is a private, nonprofit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Service Code established to promote initiative, achievement, and excellence among young people in the areas of public service, personal development, physical fitness, and expedition. New program participants totaled over 3,000 in fiscal year 2005. During fiscal year 2005, there were approximately 21,000 participants registered in the Foundation's Award program. The Foundation's previous authorization expired on October 1, 2004. On December 22, 2005, the President signed Public Law 109-143, which reauthorized the Congressional Award Foundation through September 30, 2009.

**Note 2. Summary of Significant Accounting Policies**

A. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles applicable to not-for-profit organizations.

B. Cash Equivalents and Certificate of Deposit

The Foundation considers funds held in its checking account and all highly liquid investments with an original maturity of 3 months or less to be cash equivalents. Money market funds held in the Foundation's Congressional Award Fellowship Trust (the Trust) are not considered cash equivalents for financial statement reporting purposes.

The Foundation has a \$50,000 certificate of deposit which is pledged as collateral on the \$100,000 line of credit (see note 8).

C. Contributions Receivable

Unconditional promises to give are recorded as revenue when the promises are made. Contributions receivable to be collected within less than one year are measured at net realizable value.

D. Equipment, Furniture and Fixtures, and Related Depreciation

Equipment, furniture, and fixtures are stated at cost. Depreciation of furniture and equipment is computed using the straight-line method over estimated useful lives of 5 to 10 years. Expenditures for major additions and betterments are capitalized; expenditures for maintenance and repairs are charged to expense when incurred.

**THE CONGRESSIONAL AWARD FOUNDATION**

**Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2005 and 2004**

Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in revenue or expense, as appropriate.

E. Congressional Award Fellowship Trust - Investments

The Trust investments consist of equity securities and money market funds which are stated at market value.

F. Classification of Net Assets

The net assets of the Foundation are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for the general support of the Foundation.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for specific programs or future periods.

The Foundation has no permanently restricted net assets.

G. Revenue Recognition

Contribution revenue is recognized when received or promised and recorded as temporarily restricted if the funds are received with donor or grantor stipulations that limit the use of the donated assets to a particular purpose or for specific periods. When a stipulated time restriction ends or purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

H. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis as described in note 11. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Reclassifications

**THE CONGRESSIONAL AWARD FOUNDATION**

**Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2005 and 2004**

Certain reclassifications have been made to the fiscal year 2004 Statement of Cash Flows to conform to the fiscal year 2005 presentation. In fiscal year 2005, the Foundation changed the format of its Statement of Cash Flows from direct method to the indirect method for purposes of reporting cash flows from operating activities. Accordingly, the Statement of Cash Flows for 2004 contains certain reclassifications to conform to the Foundation's current financial statement format. For fiscal years 2004 and 2005, the reconciliation of net income to net cash provided by operating activities is included in the Statement of Cash Flows.

**Note 3. Contributions Receivable**

At September 30, 2005, and 2004, promises to give totaled \$45,000 and \$60,573, respectively, none of which was temporarily restricted by the donors. At September 30, 2005, and 2004, \$45,000 and \$60,573, respectively, were due within 1 year. At September 30, 2005, and 2004, net assets of \$28,568 and \$31,626, respectively, were temporarily restricted by donors for future periods.

**Note 4. Congressional Award Fellowship Trust**

The Congressional Award Fellowship Trust (the Trust) was established in 1990 to benefit the charitable and educational purposes of the Foundation. The Trust Fund received \$264,457 of contributions since 1990, which were designated as permanently restricted by the donors when the donations were originally made. During the fiscal year ended September 30, 2004, the trust conditions changed. The Declaration of Trust of the Congressional Award Trust was amended, with the consent of the original declarants of the Trust and the Trustees, effective December 2003. Among other changes, the Amended Trust Declaration removes the permanent restriction on the use of endowment donations. Trust Fund amounts may be distributed to the Foundation at the discretion of the Trustees. During the fiscal year ended September 30, 2005, the Trustees authorized the use of \$178,563 of the Trust Fund to support fiscal year 2005 operations.

At September 30, 2005, and 2004, the Trust Fund's investments at fair value consisted of the following:

<u>Description</u>	<u>At September 30,</u>	
	<u>2005</u>	<u>2004</u>
Equity and debt securities	\$ 58,524	\$ 188,978
Money market funds	<u>7</u>	<u>6,573</u>
<b>Total</b>	<b><u>\$ 58,531</u></b>	<b><u>\$195,551</u></b>

**THE CONGRESSIONAL AWARD FOUNDATION**

**Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2005 and 2004**

Activity in the Trust Fund for the fiscal years ended September 30, 2005, and 2004 was as follows:

	<u>September 30,</u>	
	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 2,736	\$ 3,745
Net realized gains (losses)	(3,279)	(1,669)
Net unrealized gains (losses)	<u>38,807</u>	<u>16,432</u>
Total investment gains (losses)	38,264	18,508
Investments transferred to current operations	(178,563)	(55,092)
Investment earnings applied to current operations	<u>3,279</u>	<u>1,669</u>
Net change in Trust Fund investments	(137,020)	(34,915)
Trust Fund investments, beginning of year	<u>195,551</u>	<u>230,466</u>
<b>Trust Fund investments, end of year</b>	<b><u>\$ 58,531</u></b>	<b><u>\$195,551</u></b>

**Note 5. In-kind Contributions**

During fiscal year 2005, the Foundation received in-kind (non-cash) contributions from donors. Donated professional services are accounted for as contribution revenue and as current period operating expenses. In-kind contributions received also resulted from the forgiveness of debts which were accounted for as contribution revenue. During fiscal year 2005, the Foundation negotiated cancellation of \$63,262 of its liabilities with vendors. The vendors offered these balances owed as in-kind contributions to the Foundation. The value of the in-kind contributions recognized was \$131,114 for fiscal year 2005 and \$94,596 for fiscal year 2004. These non-cash contributions are as follows.

	<u>2005</u>	<u>2004</u>
Professional services:		
Legal	\$ 63,202	\$ 91,000
Web-hosting	4,650	3,596
Donations related to forgiveness of debt	<u>63,262</u>	<u>0</u>
<b>Total in-kind contributions</b>	<b><u>\$131,114</u></b>	<b><u>\$ 94,596</u></b>

**THE CONGRESSIONAL AWARD FOUNDATION**

**Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2005 and 2004**

In addition, Section 7(c) of Public Law 101-525, the Congressional Award Amendments of 1990, provided that "the Board may benefit from in-kind and indirect resources provided by the Offices of Members of Congress or the Congress." Resources so provided include use of office space, office furniture, and certain utilities. In addition, section 102 of the Congressional Award Act, as amended, provides that the United States Mint may charge the United States Mint Public Enterprise Fund for the cost of striking Congressional Award Medals. The costs of these resources cannot be readily determined and, thus, are not included in the financial statements.

**Note 6. Temporarily Restricted Net Assets**

Temporarily restricted net assets at September 30, 2005, and 2004 were available for the following programs and future periods:

	<u>2005</u>	<u>2004</u>
Puerto Rico Council development	17,396	17,561
Nevada Council development	10,381	12,282
Oklahoma Council development	<u>791</u>	<u>1,783</u>
<b>Total net assets temporarily restricted for use:</b>	<b><u>\$ 28,568</u></b>	<b><u>\$ 31,626</u></b>

Net assets released from restrictions during the years ended September 30, 2005, and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Contributions released from restriction for use in fiscal years 2005 and 2004, respectively	\$ 0	\$ 160,000
Puerto Rico Council development	166	160
Nevada Council development	1,901	1,765
Oklahoma Council development	<u>993</u>	<u>2,246</u>
<b>Total temporarily restricted net assets released for use:</b>	<b><u>\$ 3,060</u></b>	<b><u>\$164,171</u></b>

**Note 7. Employee Retirement Plan**

For the benefit of its employees, the Foundation participates in a voluntary 403(b) tax-deferred annuity plan, which was activated on August 27, 1993. Under the plan, the Foundation may, but is not required to, make employer contributions to the plan. There was no contribution to the plan in fiscal years 2005 and 2004.

**THE CONGRESSIONAL AWARD FOUNDATION**

**Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2005 and 2004**

**Note 8. Line of Credit**

The Foundation has a \$100,000 revolving line of credit with its bank that bears interest at 7.75 percent per annum. The line of credit is partially secured by the Foundation's investment in a \$50,000 certificate of deposit held by the same bank. At September 30, 2005 and 2004, the outstanding balance on the line of credit was \$100,000.

**Note 9. Accounts Payable**

The accounts payable balance is \$15,817 at September 30, 2005. The accounts payable balance at September 30, 2004 was \$135,503. During fiscal year 2005, \$63,262 in amounts owed to vendors for goods and services received primarily in fiscal year 2002 were forgiven by the vendors. These amounts are reflected as in-kind contributions on the Foundation's Statements of Activities (see note 5).

**Note 10. Related Party Activities**

During fiscal year 2005, an ex-officio director of the Board provided pro bono legal services to the Foundation. The value of legal services has been included in the in-kind contributions and professional fees line items (see note 5).

In addition, a former Board Member served as portfolio manager with the brokerage firm responsible for managing the Congressional Award Fellowship Trust account during fiscal years 2005 and 2004.

During March 2004, the Foundation entered into an agreement with a professional fundraiser. Also in 2004, the spouse of this professional fundraiser was elected to the Board of Directors of the Foundation. The professional fundraiser was retained on a 10 percent commission basis for fiscal year 2004. During fiscal year 2005, the commission basis was increased to 15 percent. Expenses incurred by the Foundation during fiscal year 2005 and 2004 to the related party totaled \$12,891 and \$9,756, respectively.

**Note 11. Expenses by Functional Classification**

The Foundation has presented its operating expenses by natural classification in the accompanying Statements of Activities for the fiscal years ending September 30, 2005, and 2004. Presented below are the Foundation's expenses by functional classification for the fiscal years ended September 30, 2005, and 2004.

**THE CONGRESSIONAL AWARD FOUNDATION**

**Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Program activities	\$ 282,245	\$ 335,529
Fund-raising activities	60,375	56,243
Administrative activities	<u>121,400</u>	<u>202,686</u>
<b>Total</b>	<b><u>\$ 464,020</u></b>	<b><u>\$ 594,458</u></b>

**Note 12. The Foundation's Ability to Continue as a Going Concern**

The Congressional Award Foundation is dependent on contributions to fund its operations and, to a far lesser extent, other revenues, interest, and dividends. The Foundation's net assets increased by \$10,016 in fiscal year 2005 and decreased by \$167,956 in fiscal year 2004. The increase in net assets in fiscal year 2005 was due primarily to increases in unrealized investment gains. In fiscal year 2005, the Foundation released Trust funds to eliminate past due accounts payable and improve the Foundation's fiscal position. As a result, the Foundation's investments decreased \$137,020 in fiscal year 2005 from \$195,551 to \$58,531. The Foundation has taken steps to substantially decrease administrative expenses, and has implemented numerous initiatives to increase fundraising revenue. The Foundation's ability to continue as a going concern is dependent on increasing revenues. Unaudited financial data compiled by the Foundation as of March 31, 2006, show that the Foundation's financial condition has not improved from September 30, 2005.

During fiscal year 2005, the Board elected several new Members and the Foundation hired an accountant, who was promoted to Controller in fiscal year 2006, to focus on improving financial management. Subsequent to fiscal year 2005, the newly elected Treasurer and Audit Committee Chair worked with the National Office staff to improve internal control over financial reporting by developing written fiscal policies and procedures, and financial reporting guidelines. These efforts are expected to provide more accurate and timely accounting and reporting.

To improve fundraising efforts, the Board created a Congressional Liaison Committee, Development Committee, and Program Committee during fiscal year 2005. The newly elected Development Chairperson is leading fundraising initiatives in the corporate community and continuing to work with professional fundraisers to more actively involve congressional members with monthly Capitol Hill fundraising events focused around key Members. These events are generating funds from new donors and providing opportunities to maintain relations with current Foundation supporters.

**THE CONGRESSIONAL AWARD FOUNDATION**

**Notes to Financial Statements  
For the Fiscal Years Ended September 30, 2005 and 2004**

**Note 13. Subsequent Events**

On December 22, 2005, the President signed Public Law 109-143, which reauthorized the Congressional Award Foundation for another five years, "as though no lapse or termination of the Board ever occurred."

Four Foundation Board Members were appointed by the Speaker of the House of Representatives to serve on the National Board on March 30, 2006. One new Foundation Board Member was elected at the April 3, 2006, meeting of the Board of Directors.

The Spouse Executive Council, made up of spouses of Congressional members, was created and held its first meeting on February 6, 2006, to assist with fundraising and the overall mission of the Foundation.

# Comments from the Congressional Award Foundation



Public Law 96-114, The Congressional Award Act

## The Congressional Award

May 8, 2006

Mr. David M. Walker  
Comptroller General of the United States  
U.S. Government Accountability Office  
441 G Street NW  
Washington, DC 20548

Dear Mr. Walker:

This letter is in response to your audit report of the Congressional Award Foundation's statements of financial position as of September 30, 2005 and 2004. Specifically, this letter is to inform you of the positive changes that have occurred in regards to (1) the overall financial condition of the Foundation and (2) internal accounting controls.

The Congressional Award Foundation continues to work diligently to secure the proper funds to adequately support the growing program. As of April 30, 2006, the Foundation has received over \$310,000 in contributions and pledges for fiscal year 2006 and recorded net income of over \$80,000, demonstrating a significant improvement in funding over fiscal year 2005. In fact, projections show the Foundation will not only meet or exceed their budgeted revenue of \$600,000 but will execute more fundraising events with Members of Congress than ever before. Senators Enzi, Kennedy, Baucus and Craig will all host fundraising events for the program in the coming months. Recent events hosted by Congressman Payne and Senator Lott helped to increase the Foundation's donor pool by over 43 percent - with five months still left in the fiscal year. In addition, the annual Congressional Award Golf Classic, an event widely attended by Members of Congress and Chiefs of Staff, raised a record of over \$100,000 for the Foundation.

Our success is attributed both to the recent re-authorization of the program by the United States Congress, which was signed into law on December 22, 2005 by President Bush, and Congress reaffirming their commitment and dedication to the Congressional Award Foundation, resulting in donors more willing to contribute financially.

The Foundation has effectively reduced operating expenses in order to meet financial obligations, and still was able to continue serving the growing program enrollment. The small staff of five people and group of unpaid interns worked with reduced resources to increase program participation by nearly 20 percent.

In addition to the small program staff, the Foundation hired a Controller in 2005, who was able to provide financial statements to auditors within five months of year-end, and respond to all GAO inquiries in a timely and appropriate manner. This marks significant progress given our staff constraints and overall lack of resources.

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Mailing Address: Post Office Box 77440 • Washington, DC 20013  
[www.congressionalaward.org](http://www.congressionalaward.org)

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**Appendix I**  
**Comments from the Congressional Award**  
**Foundation**

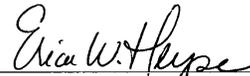
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Also in 2005, the newly elected Treasurer and Audit Committee Chair worked with the National Office staff to improve internal control over accounting and financial reporting by developing written policies and procedures for financial operations and reporting. The National Office also took measures to ensure full compliance with all laws and regulations.

Sincerely,



Daniel Scherder  
Treasurer, Congressional Award  
National Board of Directors



Erica Wheelan Heys  
Acting National Director  
Congressional Award Foundation

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